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Poultry and Products

Poultry Imports Lower, Production and Input Costs Higher

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Report Highlights:

Russian broiler production is forecast to continue to grow at a brisk pace in 2004 (11 percent), even though high feed costs will reduce production growth and temporarily decrease industry investment. Poultry imports are forecast to reach only 1.05 MMT in 2004 due to the poultry quota and will be ten percent lower than in 2003.

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Executive Summary

Russian broiler production is forecast to continue to grow at a brisk pace in 2004 (11 percent), marking the sixth straight year of increased production. However, high feed costs due to the poor Russian grain harvest of 2003 will reduce production growth and temporarily subdue the high level of industry investment. Poultry imports are forecast to reach only 1.05 MMT in 2004 due to the poultry quota. The 2004 poultry import quota should be somewhat more flexible for exporters due to the elimination of a requirement that 25 percent of imports in 2003 be mechanically deboned meat. With demand expected to remain strong, the poultry quota and, to a lesser extent, the feed shortage are expected to maintain strong upward pressure on prices.

Production

Russian production of broiler meat is forecast at 620,000 MT in 2004, an 11 percent increase over production in 2003, but three percent less than the previous forecast. The broiler production estimate was decreased slightly due to tight feed supplies throughout Russia. Though feed supplies are short and feed grain prices are high, modern poultry facilities continue to increase production. These efficient producers also continue to buy low efficiency poultry farms, which remain plentiful in many parts of Russia, and add new management techniques, new equipment, and new production technologies. Increasing poultry prices have helped the efficient producers remain profitable, despite grain prices, and permitted further expansion. An additional factor for investment remains the strong earnings for companies in the natural resource export sector, several of which own and support poultry and livestock subsidiaries. However, poultry industry profits are lower than in recent years, subsequently reducing the rate of upgrading poultry production in the old plants.

The Russian poultry flock increased by two percent in 2002 over 2001 and decreased by 0.2 percent in 2003, compared with 2002. This is the result of bankruptcy or production slow-downs among inefficient producers. Nevertheless, more overall efficient production is causing increased average daily weight gain and faster finishing times.

Feed Supply

Increasing poultry production demands increased feed supplies. The low 2003 grain harvest, increased grain export volumes, and increased feed consumption by poultry and livestock producers created feed shortages in the Russian Federation at the end of 2003 and will continue through the first half of 2004. Thus, prices have skyrocketed. The price of one metric ton of feed wheat has reached about \$160, barley \$130, and corn \$175. The data presented in Table 1 shows significant feed stock reduction in 2003 in comparison with 2002. However, despite the very high prices, the feed price effect has been mitigated to some degree by the very high profitability (per kilo of meat) of leading producers, increasing efficiency of feed utilization, and use of non-traditional feeds (or feed not accounted for by national statistics) by small farmers. Nonetheless, producers are experiencing difficulties in obtaining the volume and quality of grain (mostly wheat) necessary in some regions due to the poor inter-regional transportation of grains. Artificial administrative or other barriers to free transit of grain inside Russia have forced many producers to shift from the traditional predominately wheat ration to other components, including imported soy and other feed ingredients.

Table 1. Available Feed at Agricultural Organizations in December, 2002 and 2003.

	2003	2002
Available feeds, million tons feed units	24.1	29.1
Including grain feeds	6.9	9.2
Tons of feed units per one standard animal	1.34	1.48

Source: Russian State Statistics Committee

Consumption

Poultry consumption in 2004 is forecast to decrease by three percent over 2003 because local production will not be able to fill the gap between supply and demand caused by the poultry quota. Prices will continue to rise on all types of poultry products. As prices continue to increase, consumption will be held to a lower level.

Meat Categorization

There is a clear distinction between the meat of broilers and spent hens: meat from layers is sold in grocery stores and labeled as "soup chicken" with a price about 30 percent lower than broiler meat. Layer meat is especially popular with pensioners and other low-income customers who buy them to prepare chicken broth or soup and cutlets made from tenderized or ground chicken. The layer meat market is a secondary market expected to grow only at the rate of the egg industry.

Trade

Russian poultry imports are expected to be 1.05 MMT in 2004, the same as the previous forecast because the quota volume remains unchanged. (Please see Policy section below for details.)

Total Russian poultry imports in 2003 were about 100,000 MT lower than 2002. Overall poultry trade saw two peaks in 2003, the first (February – April) before the poultry import quota was enforced and second (November-December) when poultry traders were trying to import the remainder of their quota before the 2003 licenses expired. High import volumes in the pre-quota period softened the negative impact of the protective measures on poultry imports and buoyed poultry availability and supply throughout the remainder of 2003. Turkey imports in 2003 were higher than expected because the country allocation allowed certain importers to seek to maximize the value of their quota license by importing higher priced turkey parts.

The trade in 2004 has got off to a slow start due to delays in import quota allocation. The Ministry of Economic Development and Trade announced the eligible importers on January 26, 2004, after publishing and then revising two earlier versions. Assuming a minimum processing time for license applications of five working days, the first shipments of U.S. poultry would not arrive prior to March 1st. While this is a frustrating delay, many traders were subdued because they still held large stocks as a result of the rush of product prior to the expiration of the 2003 licenses in late 2003.

Table 2. Poultry Imports, 2001-2002 and January-October 2003.

			2003											
Quantity (MT)		2001	2002	Jan.	Feb.	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	YTD
0207	POULTRY MEAT,OFFAL	1,375,025	1,375,039	80,206	81,516	138,391	219,301	16,666	46,270	74,265	99,383	76,006	83,938	915,941
020714	CHCK CUT+ED OFL,FRZ	1,147,949	1,056,599	61,448	67,631	116,166	177,965	10,674	39,053	62,337	86,358	63,721	73,570	758,924
020727	TRKY CUT+ED OFL,FRZ	160,854	163,730	10,698	7,062	13,998	22,011	1,089	5,426	8,402	6,747	5,926	5,417	86,775
020712	CHICKEN,WHOLE,FROZN	62,636	147,032	7,651	6,567	7,831	18,775	4,799	1,573	3,019	5,653	5,724	4,006	65,597
	OTHER	3,587	7,677	60	0	37	140	37	216	453	569	534	698	2,744

Source: World Trade Atlas

Table 3. Exporting Country Market Share of Total Poultry Imports, 2001-2002 and January-October 2003.

0207 Mkt. Share (% of Qty.)	2001	2002	Jan.	Feb.	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	YTD
1 United States	77.3%	54.5%	32.5%	55.7%	55.7%	54.1%	36.5%	72.2%	69.8%	78.0%	69.2%	77.2%	60.4%
2 Germany	3.2%	4.1%	3.5%	4.8%	3.8%	3.7%	3.0%	0.4%	4.8%	3.9%	7.1%	6.2%	4.2%
3 Brazil	6.8%	21.5%	39.8%	18.3%	22.2%	26.1%	41.0%	10.0%	6.2%	4.5%	10.1%	5.2%	18.3%
4 France	5.2%	6.6%	8.4%	3.8%	6.2%	5.2%	1.8%	7.0%	10.6%	7.9%	4.9%	4.0%	6.1%
5 Poland	0.2%	0.3%	0.3%	0.4%	0.3%	0.4%	6.5%	4.0%	2.7%	2.0%	2.9%	2.7%	1.5%
6 Spain	0.2%	0.3%	0.5%	0.6%	0.2%	0.5%	1.2%	2.2%	1.3%	0.7%	0.6%	1.4%	0.8%
7 Canada	0.5%	1.6%	1.7%	1.7%	0.8%	1.7%	0.5%	0.8%	0.9%	0.5%	1.5%	1.0%	1.2%
8 Sweden	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.1%	0.2%	0.4%	0.9%	0.5%	0.2%
9 China	0.6%	2.2%	6.0%	4.4%	3.0%	3.9%	1.9%	0.0%	0.3%	0.2%	0.4%	0.5%	2.5%
10 Finland	0.1%	0.3%	0.2%	0.3%	0.2%	0.3%	0.7%	0.3%	0.4%	0.5%	0.3%	0.4%	0.3%

Source: World Trade Atlas

Poultry prices

Prices for domestic poultry frozen carcasses and boneless breasts decreased in November, as did prices for the popular imported chicken leg quarters and all other imported poultry. November was the only month to exhibit an across-the-board price decrease in 2003. This decline in prices is attributed to the large amount of poultry that was entering Russia or had been booked for shipment during the last two months of the year, prior to the expiration of the 2003 quota licenses. Clearly, this shows how influential imported poultry remains in Russia. It is important because it fills a significant portion of demand, but it also plays a price setting role as domestic producers maintain a relative ratio between their prices and imported poultry prices.

Stocks

Large volumes of poultry shipments in December 2003 created temporary large stocks of poultry meat at the end of the year. The trade estimates that stocks will be exhausted by the end of February and return to normal levels when imports resume. There is concern that 2004 ending stocks might be much lower if the poultry quota is not used evenly throughout the year.

Policy

The measures taken by the Russian Government to protect the interests of domestic producers in 2003 created a lot of logistical complications for importers and exporters. It is difficult for importers to get through the complicated system of regulations and procedures prepared in the rush to initiate the quota. Obtaining an import license from MEDT and import permit from Ministry of Agriculture remains a time consuming and onerous problem. Moreover, new importers are now effectively barred from participating in the trade of poultry

and supply problems are being encountered by firms that need to find additional import volumes but cannot increase their share of the licenses.

Table 4. Moscow Wholesale Poultry Meat Prices, January – January 2004.

Date	Exchange Rate, ruble/\$	Domestic chicken			Imported chicken		
		Frozen carcasses	Frozen breast, boneless	Frozen leg quarters	Frozen carcasses	Frozen breast, boneless	Frozen leg Quarters
01/30/2003	31.80	42.81	58.28	47.05	38.55	55.47	34.69
02/28/2003	31.58	42.32	56.28	41.16	40.81	54.89	35.04
03/30/2003	31.38	41.68	55.17	42.27	42.15	54.15	34.92
04/30/2003	31.10	41.77	55.67	44.50	41.90	56.38	34.42
05/30/2003	30.67	43.93	57.62	45.00	43.76	62.17	39.55
06/30/2003	30.35	49.07	59.32	49.50	48.27	73.08	39.77
07/30/2003	30.25	53.55	78.00	50.83	55.78	81.69	41.76
08/30/2003	30.50	59.04	99.67	59.62	59.09	101.00	44.81
09/30/2003	30.61	59.96	108.00	61.09	58.58	107.77	45.45
10/30/2003	29.82	58.77	105.50	57.23	58.21	103.48	47.08
11/30/2003	29.74	57.96	101.00	61.13	56.42	95.08	47.11
12/30/2003	29.25	56.02	93.33	60.63	55.65	88.32	45.39
01/30/2004	28.49	54.96	92.67	57.88	53.98	82.58	45.85

Source: Russian Institute for Agricultural Market Studies (IKAR)

Prices are in rubles per kilogram.

The Russian government established the rules for 2004 poultry imports on November 29, 2003. The resolution sets the poultry meat import quota at 1.05 million tons. This varies from the previous year in that it is not separated into meat and ground meat (mechanically deboned meat). The 2003 quota required that about 25 percent of imports from each country must be mechanically deboned meat. For 2004, the United States received a quota of 771,900 tons, EU and future EU countries (Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta) 205,000 tons, Paraguay 5,000 tons, and other countries 68,100 tons. Please reference GAIN Report RS3050 for the text of the poultry import quota resolution.

In particular, Brazilian suppliers were dissatisfied that there was no separate quota on meat imports to Russia, but that its quota falls under the category "Other Countries." Following a visit by top Brazilian officials in January 2004, the Russian Government stated that it will consider submitting a proposal to allocate a separate quota for Brazilian meat supplies to Russia, which would probably be subtracted from the "Other Countries" category.

Ceiling on retail markup on "socially important" food products

Aleksey Gordeyev, Deputy Prime Minister and Minister of Agriculture, said that the Russian Government is considering setting a ceiling on the markup retailers can charge on "socially important" food products, including some meat products. The government legally cannot set such limits currently, but officials are reviewing foreign experience in this area. If the idea is approved, the proposal may be included in a draft law that would likely be submitted for consideration in the first quarter of 2004. This was part of the continuing effort of the Russian Government to ensure that food prices remain moderate, so that low-income consumers are not disadvantaged.

Sales and value added taxes

Russia canceled one sales tax beginning January 2004 and reduced the value added tax (VAT) from 20 to 18 percent on most products. However, meat products will remain subject to a ten percent VAT, as they are considered "socially important" products. The Russian Government plans to further reduce the general VAT, while "socially important" products will remain at the lower VAT level.

PSD Table

Country	Russian Federation		Poultry, Meat, Broiler		(1000 MT)(MIL HEAD)	UOM	
Commodity	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004	MM/YYYY
Market Year Begin							
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	120	120	130	130	80	90	(1000 MT)
Production	500	500	580	560	640	620	(1000 MT)
Whole, Imports	150	150	80	75	50	50	(1000 MT)
Parts, Imports	1058	1058	1100	1025	940	940	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	1208	1208	1180	1100	990	990	(1000 MT)
TOTAL SUPPLY	1828	1828	1890	1790	1710	1700	(1000 MT)
Whole, Exports	1	1	0	0	0	0	(1000 MT)
Parts, Exports	0	0	1	1	1	1	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	1	1	1	1	1	1	(1000 MT)
Human Consumption	1675	1675	1790	1680	1709	1670	(1000 MT)
Other Use, Losses	22	22	19	19	0	0	(1000 MT)
Total Dom. Consumption	1697	1697	1809	1699	1709	1670	(1000 MT)
TOTAL Use	1698	1698	1810	1700	1710	1671	(1000 MT)
Ending Stocks	130	130	80	90	0	29	(1000 MT)
TOTAL	1828	1828	1890	1790	1710	1700	(1000 MT)
DISTRIBUTION							
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country	Russian Federation		Poultry, Meat, Turkey		(1000 MT)(MIL HEAD)		UOM
Commodity	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004	MM/YYYY
Market Year Begin							
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	9	9	12	12	12	12	(1000 MT)
Whole, Imports	5	5	3	3	5	5	(1000 MT)
Parts, Imports	160	155	77	100	55	55	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	165	160	80	103	60	60	(1000 MT)
TOTAL SUPPLY	174	169	92	115	72	72	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	173	168	91	114	71	71	(1000 MT)
Other Use, Losses	1	1	1	1	1	1	(1000 MT)
Total Dom. Consumption	174	169	92	115	72	72	(1000 MT)
TOTAL Use	174	169	92	115	72	72	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	174	169	92	115	72	72	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)